

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

House Bill 1449
 Ways and Means

(Delegates Hixson and Hurson)

Insurance Premiums Tax - Health Maintenance Organizations

This bill imposes the 2% insurance premium tax imposed on HMOs. HMO premiums to be taxed include subscription charges or other amounts paid to an HMO on a predetermined periodic rate basis by a person as compensation for providing health care services to HMO members.

The bill's provisions apply to premiums written for all policies, contracts, and health benefit plans, issued, delivered, or renewed in the State on or after July 1, 2002. Any health benefit plan in effect before July 1, 2002 must comply with the bill's provisions by July 1, 2003. The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: General fund revenues could increase by \$40.5 million in FY 2003 from the imposition of the 2% premium tax on HMOs. Future year estimates reflect inflation. To the extent the premium tax imposes additional costs on HMOs and HMOs raise premiums to cover that increase, expenditures for the State Employee Health Benefits Plan could increase.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	\$40,489,200	\$45,347,900	\$50,789,600	\$56,884,400	\$63,710,500
GF/SF/FF Exp.	-	-	-	-	-
Net Effect	\$40,489,200	\$45,347,900	\$50,789,600	\$56,884,400	\$63,710,500

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: To the extent HMOs increase premiums as a result of the premium tax exemption repeal, expenditures for local jurisdiction employee health benefits could increase.

Small Business Effect: Minimal. Health insurance costs for small businesses could increase if HMOs increase premiums as a result of the premium tax exemption repeal.

Analysis

Current Law: A 2% premium tax is imposed on all gross direct insurance premiums derived from business in Maryland. All health insurers, other than nonprofit health service plans, fraternal benefit societies, and HMOs, are subject to the premium tax.

State Revenues: There are currently 14 HMOs operating in Maryland. In calendar 2001, HMO premiums that would be subject to the 2% premium tax totaled \$1,705,238,812, which would have resulted in a potential premium tax of \$34,104,776. Assuming 12% annual health care inflation, HMO premiums could total approximately \$2,024,459,517 in fiscal 2003, which would generate \$40,489,190 in general fund tax revenues. Future year revenue estimates assume 12% health care inflation.

State Expenditures: To the extent the premium tax imposes additional costs on HMOs and HMOs raise premiums to cover that increase, expenditures for the State Employee Health Benefits Plan could increase. State plan expenditures assume a fund mix of 60% general funds, 20% federal funds, and 20% special funds; and 20% of expenditures are reimbursable through employee contributions.

Additional Information

Prior Introductions: A similar bill, HB 510, was introduced in the 1997 session. The bill was not reported from the House Ways and Means Committee.

Cross File: None.

Information Source(s): Maryland Insurance Administration, Department of Legislative Services

Fiscal Note History: First Reader - March 23, 2002
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